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CONFIDENTIAL CLOSED SESSION MINUTES

New Shoreham Electric Utility Task Group

New Shoreham Police Station, Beach Avenue

Monday, October 1, 2007

1:00 p.m.

Present: Co-Chair Thomas Cardello, Members Everett Shorey, Christopher Warfel, and Barbara MacMullan. Co-Chair Michael Lofaro was absent. Fiona Fitzpatrick was present to take the minutes.

Dr. Cardello called the meeting to order at 1:00 p.m.

At 1:25, Ms. MacMullan moved enter executive session with Dr. Baute in attendance pursuant to RIGL §42-46-5(a)(5) for the acquisition of property, seconded by Mr. Warfel. Motion was seconded and voted approved.

Ayes: 4 (Cardello, Warfel, MacMullan, Shorey) Nays: 0 Absent: 1 (Lofaro)

The Electric Utility Task Group held a wide ranging discussion.

- What is the book value of the Block Island Power Company?

The Company's rate base is \$4,240,000 and the total debt is \$4,138,000. Depreciated replacement cost of the entire facility is \$2,000,000 (book value of new generators plus replacement estimate for replacing wires, and old equipment, depreciated).

- Is the rate base related to the total debt, or the debt service?

Rate base is calculated from the value of the company's assets, not the number of customers. The rate base is debt on which you can earn a return legally. The required profit to pay a return on both debt and equity is the rate base times the cost of capital. For valuation purposes, it is difficult to pay more than the rate base to buy the company and still earn the allowed rate of return. Ms. MacMullan said their allowed rate of return on equity is 10.5%. Their debt is at 5.5%. Mr. Shorey said their free cash flow per year allowed is about \$150,000. One way of valuing the company is dividing the cash flow by the rate of return: \$1,500,000. Replacement value is \$2,000,000. The value of the company, without the land, is between \$1,000,000 and \$2,000,000. Power companies are purchased for their rate base.

Mr. Shorey reported a complication: the rate base is greater than the book assets, so the equity for rate purposes is greater than the actual equity on the books. (Mostly due to timing differences; they do their books in May when there is the least amount of cash. Books are cash long in August or September is \$500,000 greater.)

A return cannot be made on acquisition premium over rate base. (Mr. Warfel explained you can pay it, you just can't get a return on it.) If you buy the company as is, you can make \$150,000 per year if you run a profitable business. Rates will be adjusted to ensure it is profitable.

The group would not recommend that the Power Company be purchased at \$1,500,000 for the ability to earn \$150,000 per year, but rather for the ability to earn a return while lowering the cost of electricity (and generating cleaner energy). The Power Company should be bought for the ability to control its future.

- Current rates

Block Island Power Company spends 34.5 cents per kilowatt hour to generate, including fuel and labor. Administrative and distribution costs are 12.2 cents.

- What are the costs of other generating systems?

Wind is estimated at 6.1 cents per kilowatt hour.

Cogeneration is approximately 20 cents per kilowatt hour for propane, 14 cents for deisel. A solar power project would be about 21 cents per kW hour, with the advantage is it can be distributed anywhere around the Island. This cost factors in tax credits for the private company not available to a coop or municipality. Stirling Energy claims solar thermal at 10 cents per kilowatt hour. Tracking mirrored solar discs are focused on an efficient thermal engine, each can power about ten homes. Visual impact is low.

The ratepayer's cost of electricity has exceeded the cost of generation. If the Power Company continues to charge more and more for power (that's what they're likely to do), there will be more and more generators coming on line.

The Power Company has a monopoly on distribution, not generation. Power would have to be bought by the Company at avoided cost. Because of their size, the Power Company may be excluded from buying the customary maximum under a restructuring act. PURPA mandates that a company buy renewable power, up to a certain size generation facility, but also protects the power company so they don't have to buy a destabilizing amount of power.

Scenario: Increasing amounts of ratepayers leaving the system by generating their own power. The Power Company's administrative costs, now 22 cents per kilowatt, would be raised and spread over the remaining rate base. This would destabilize the company. If an electric utility goes bankrupt, dept holders are protected, not stockholders. Ratepayers suffer.

Another outcome may be small, independent generation systems adding power to the system, paid avoided costs. Protections are in place under restructuring acts, the Power Company will not be forced to purchase and distribute a destabilizing amount of power from an independent generator. Under PURPA, the Company would have to distribute some power (limit unknown) from an independent generating company.

Scenario: A generation company invests in alternative generation and adds power up to the PURPA limit. The generation company would make a profit. The ratepayers will not see a difference, because BIPCo would purchase the power at their avoided cost. This scenario would not have a destabilizing effect on the Power Company and is not a pressure point.

Scenario: A cooperative or Town-owned company invests in alternative generation and adds power, up to the PURPA limit. BIPCo would purchase the power at their avoided cost. The generation company would make a profit, which would be paid back to ratepayers as a dividend. This company could also provide the structure to promote significant conservation measures. This would not be a pressure point for the company.

The Power Company may be for sale for \$4,000,000. It may include the land.

A long discussion ensued regarding whether the owners might sell for a lifetime annuity equal to their annual management fee. A discussion of whether to purchase the land, or an easement ensued. Power will have to be generated somewhere, and some technologies lend themselves to be located in many areas throughout the Island. The Power Company is not in an ideal location for wind or solar.

Mr. Shorey moved to authorize a subcommittee of Mr. Warfel and Ms. MacMullan to work on the Chris's questions. Motion was seconded and voted approved.

Ayes: 4 (Cardello, Warfel, MacMullan, Shorey) Nays: 0 Absent: 1 (Lofaro)

Another option was discussed: A new company buys the wires, right to distribute, and one or two diesel generators. BIPCo would not be left with the exclusive right to generate. The remains of BIPCo (the land and some diesel generators) would sell power to the new company, but would not have the benefit of PURPA rules because they do not apply to diesel generators. The problem is the 40 year financing on the new generators. It is unlikely that BIPCo would be allowed to sell unless they are awarded a long-term contract to generate for the new company. This option is not attractive. Also, need to own the diesels for peaking power anyway. Much too complex.

There is value to having the existing distribution network, the peak capacity diesel generators, and a smooth transition.

A better option: Alternative power can added (financed and generated) for a cost of around 12 cents per kilowatt hour, instead of the 20 cents for diesel fuel, a savings of 8 cents per kilowatt hour for the ratepayer. The 12 cents per administrative costs includes the management fee (which could be used to pay off the owners) and debt service on the diesel generators, which would be kept. Accelerated depreciation on the new generation equipment would argue for a for-profit company (taking tax credits) with very strong representation from a public board (through corporate charter).

In a similar scenario, the Town forms a coop. The coop would contract to purchase existing power company, with distribution rights. The coop would subcontract out to purchase alternative energy, and on a case by case basis, negotiate for the renewable energy credits.

- The RUS debt will be transferred without any rate impact
- The current owners will continue to be paid

Dr. Cardello moved that he and Mr. Shorey would work out the structure of what has been discussed today, and put together a draft presentation together of the function of a coop. Ms. MacMullan and Mr. Warfel will describe the formation of a coop and research applicable PURPA regulation.

At 2:45, Dr. Cardello moved to adjourned the executive session and seal the minutes. Motion was seconded and voted approved.

Ayes: 4 (Cardello, Warfel, MacMullan, Shorey) Nays: 0 Absent: 1 (Lofaro)

Dr. Cardello stated for the record that two motions were made in executive session, and moved to keep the motions confidential property has been purchased, pursuant to RIGL 42-46-4 and 42-46-5. Motion was seconded and voted approved.

Ayes: 4 (Cardello, Warfel, MacMullan, Shorey) Nays: 0 Absent: 1 (Lofaro)

At 2:45, Mr. Warfel moved to adjourn. Motion was seconded and voted approved.

Ayes: 4 (Cardello, Warfel, MacMullan, Shorey) Nays: 0 Absent: 1 (Lofaro)

Minutes approved:

Fiona Fitzpatrick.